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BETTING AND INSURANCE.

ALAN J. DORWARD.

EVER since Adam Smith's famous argument against lotteries, that you may see how much the chances are against you by the fact that if you take all the tickets you are sure to lose, philosophers and moralists have declaimed against betting and gambling as being not only immoral but foolish. The statement is sometimes made, however, that insurance is only a form of betting; and as few people would hold that insurance is either immoral or foolish, this statement is made the basis of an argument by *reductio ad absurdum* against the objections to betting.

Now there is no doubt that betting and insurance have something in common; but the difference between them is even more fundamental. To bring out this difference clearly is the main object of this paper.

Let us first state briefly what is the element common to betting and insurance. It appears to be as follows. In both cases I pay out a comparatively small sum on condition that, if a certain event occurs, I shall be paid a comparatively large one. The fact that in the case of a bet the small sum is paid once and for all, while in the case of an insurance it consists of a yearly payment, does not really affect the matter. So far then, betting and insurance are on the same footing. But here the resemblance ends; a closer examination displays only important differences between them, and no further points of resemblance.

The first difference is in the nature of the event on whose occurrence the payment of a large sum becomes due to me. I shall call this *the important event*. Compare the cases of a bet on a horse race and a fire insurance. In the first of these, the important event is the winning of the race by the horse on which I have put my money, in the second it is the burning down of my house. Now the great differ-

ence between these two events is that the first only affects me if I have betted on the race, while the second affects me gravely whether I have insured or not. If I have not betted at all, it is a matter of comparative indifference to me whether any particular horse wins the race; but the burning down of my house must always be a matter of great importance to me. Thus in the two cases my relation to the important event is a very different one. In this connection it must be noted that if I effect an insurance on some object in which I have no direct interest *e. g.* a ship in which I have no financial interest, the transaction is neither more nor less than a bet on my part. And this I think would be generally admitted. The distinction between such an "insurance" and a normal insurance is quite clear.

The first difference between betting and insurance leads up to a second. We have seen that in the case of an insurance the important event is one in which I must always be interested. The reason of my interest is that the event always consists in a loss of a considerable amount of money or its equivalent. That is to say, I can only gain a large sum from the insurance company if I have already lost an equally large sum in another way. The effect of the insurance is therefore to neutralize any mishap to the object insured. I do not stand to *gain* anything if the important event occurs; I only make sure that I shall not *lose* anything. We may therefore say that when I pay a small sum to an insurance company *I prefer a small certain loss to a large possible loss.*

In making a bet, on the other hand, I create in myself an artificial interest in the object concerned. If the important event does not occur, I have simply lost my money; if it does, I gain a great deal which I should not have gained unless I had betted. What I do is simply to pay out a small amount of money in order to make a large gain possible. Now if we consider that I might have spent in some other way the money I put on the horse, we may say that in making a bet I voluntarily surrender a small certain

gain. By way of antithesis to what happens in insurance, we may say that in betting *I prefer a large possible gain to a small certain gain.*

But the essential difference in the objects desired by a man in the two cases, as well as in the consequences of his actions, can be brought out even more clearly. Let us slightly change the form of our two statements, and say that in the one case I expend a small sum in order to make a large loss impossible, in the other to make a large gain possible. My object in the first case is as it were to draw a circle round some part of my possessions, and ensure that, as far as possible, no change will take place within that circle. Insurance thus consists entirely in playing for safety, in a desire to preserve the *status quo*. The state of mind of one who insures is entirely conservative and utterly opposed to the taking of risks; he wants above all things to make sure that no great change will happen in the future. Nothing could be more different from the mental attitude of the gambler, who glories in the excitement aroused by some great change in his fortunes.

These considerations are, I think, sufficient to show how utterly different betting and insurance are; so that the state of mind of a man who bets is not only not the same as, but the very opposite of, the state of mind of one who insures.

So far we have been considering insurance mainly from the side of the man who insures. But some interesting cases occur when we look at an insurance from the side of the company or body which accepts the risk, and it is worth while to mention one of these in passing. If I wish to send money or other articles of value through the post and do not care to take the chances of loss which sometimes, though very rarely, occur in the case of ordinary letters or packages, I can register my letter or packet for a small sum. From my side, this is simply an ordinary insurance; if the thing is lost, the Post Office will make that loss good. But the Post Office does not regard the matter in this light alone; they do not simply accept these terms and let the

letter take its chance under ordinary conditions. They take special care of that particular letter; their extra trouble being, I suppose, paid for by the small registration fee. Thus I may, if I like, consider my twopence (or whatever the sum may be) as a small extra payment made to the Post Office to recompense them for taking exceptionally good care of that letter. Here the resemblance to a betting transaction has entirely vanished. But of course the other aspect of insurance does always remain; if the letter is lost in spite of all the precautions, the Post Office will pay me its value.

I shall conclude these remarks by pointing out a fact which is sometimes overlooked, namely, that there are occasions when betting or gambling is quite a prudent course of action, even although the chances are against one. Such occasions occur because the things which can be bought with money are not, like a sum of money itself, always divisible into a number of units. Suppose that I have to raise £100 by to-morrow or go to prison; my assets are £5 and I have no hope of raising the money required through friends or in the way of business. My shrewdest course is to take the £5 to a gaming-house (if I can find one) and stake it on a chance which will bring me £100 if I win. As the chances are usually in favour of the bank, they will be something like 21 to 1 against me. That is to say, I shall have one chance in twenty-two of escaping prison; not much, perhaps, but still better than a *certainty* of going to prison, which is my state if I do not gamble. In such circumstances, then, gambling is the only course for a prudent man. It is of course assumed that the importance of escaping or not escaping prison is so great as to be incomensurable with the small material comforts I might procure with my five-pound note.

A. J. DORWARD.

TRINITY COLLEGE, CAMBRIDGE.